

P-430, 421, 407, 405,426, 520/CP-92-1131 ORDER ADOPTING A STIMULATION FACTOR, REQUIRING REFILED COST STUDIES AND PROPOSED RATES, AND APPROVING A LOWER COST ALTERNATIVE PROPOSAL

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
Commissioner
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Commissioner

In the Matter of a Petition for Extended Area
Service From Norwood to the Twin Cities
Metropolitan Calling Area

ISSUE DATE: March 29, 1994

DOCKET NO. P-430, 421, 407, 405, 426,
520/CP-92-1131

ORDER ADOPTING A STIMULATION
FACTOR, REQUIRING REFILED COST
STUDIES AND PROPOSED RATES, AND
APPROVING A LOWER COST
ALTERNATIVE PROPOSAL

PROCEDURAL HISTORY

On September 22, 1992, customers in the Norwood exchange petitioned for extended area service (EAS) to the MCA.

On September 24, 1992, the Minnesota Department of Public Service (the Department) requested United Telephone Company (United), the local telephone company serving the Norwood exchange, to file traffic studies from Norwood to the MCA.

United filed the traffic study on November 6, 1992.

On February 1, 1993, the Commission issued its ORDER REQUIRING COST STUDIES AND PROPOSED RATES.

On April 19, 1993, United filed cost studies, but did not file a lower cost alternative proposal until August 2, 1993.

On September 16, 1993, the Department requested an extension.

On October 15, 1993, the Commission issued its ORDER EXTENDING TIME LINES, giving the Department 30 days from receipt of additional information to file its report.

The Department filed its report on January 11, 1994. In its report, the Department objected to the stimulation factor used by United in its costs studies and proposed rates, 7, and argued that a stimulation factor of four was more appropriate.

On January 27, 1994, the Commission issued Orders in four metro dockets¹ approving a stimulation factor of four for settle up filings in those matters. The Department subsequently

¹ Docket No. P-405, 421/CP-86-55 (Belle Plaine's petition for EAS to the metro); Docket No. P-430, 421, 407, 405, 426/CP-90-441 (Cologne to the metro); Docket No. P-520, 421/CP-86-537 (New Prague to the metro); Docket No. P-430, 421/CP-86-5 (Waconia to the metro).

requested reconsideration of the Commission's Orders, restating its belief that the factor should be 2. The Commission heard the Department's request and denied the petition for reconsideration.²

On March 22, 1994, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

A. Stimulation Factor

The availability of EAS between Norwood and the MCA will stimulate subscribers in the affected exchanges to increase the number and duration of calls between those exchanges. The percentage increase in such calling occasioned by the switch to EAS translates into an EAS stimulation factor. For example, an increase of 600 percent translates into a stimulation factor of 7. The EAS rate is set to recover, among other things, the expense of installing facilities and operating expenses that will be necessary to accommodate this increased calling.

In previous metro EAS dockets, the Commission determined that a stimulation factor of 7 was appropriate.³ Therefore, when the companies involved in this EAS petition filed their cost studies and proposed rates, they used a stimulation factor of 7.

However, subsequent stimulation studies of four metro EAS exchanges showed that the actual stimulation experienced in those exchanges was considerably less than originally projected.

² See, e.g. In the Matter of a Petition of Certain Subscribers in the Belle Plaine Exchange for Extended Area Service to the Minneapolis/St. Paul Metropolitan Calling Area, Docket No. P-405, 421/CP-86-55, ORDER DENYING RECONSIDERATION (March 23, 1994).

³ In the Matter of the Petition of Certain Subscribers in the Belle Plaine Exchange for Extended Area Service to the Minneapolis/St. Paul Metropolitan Calling Area, et al., Docket Nos. P-405, 421/CP-86-55, P-520, 421/CP-86-537, P-421, 407/CP-87-536, and P-407, 421, 430, 405, 426/CI-90-440, ORDER ADOPTING GUIDELINES FOR EXTENDED AREA SERVICE RATES FOR THE BELLE PLAINE, NEW PRAGUE, WATERTOWN AND NEW GERMANY EXCHANGES AND VARYING TIME FOR FILING FOR RECONSIDERATION (January 25, 1991).

After reviewing those studies, the Commission has issued Orders adopting a stimulation factor of four for several metro EAS exchanges.⁴

In its report regarding the cost studies and proposed rates filed in the current matter (Norwood), the Department recommended that the companies be required to recalculate their cost studies and proposed rates using the currently approved stimulation factor, four.⁵

No party has objected to the Department's recommendation. No party has attempted to show that the Norwood exchange is so different from the previously considered outer-rim exchanges in material characteristics that it is not subject to the precedent established in the previously cited cases. Likewise, no party has advanced arguments to persuade the Commission that any reason exists to depart from its precedent in this case.

Accordingly, the Commission finds that a stimulation factor of four is appropriate for the Norwood exchange. The Commission will direct the telephone companies involved in the Norwood matter to file revised cost studies and proposed rates using a stimulation factor of four.

B. Lower Cost Alternative

The specific rates proposed by the Company for its lower cost alternative (local measured service or LMS) will have to be adjusted to take into account the Commission's decision to change the stimulation factor from 7 to four. However, the Commission has reviewed the methodology used by the Company in developing those rates and, with the exception of the specific stimulation factor noted, approves that methodology.

The most significant factor in the development of the Company's LMS rates is estimation of the "take rate" or how many of its ratepayers will "take" or subscribe to LMS. In developing its proposed LMS rates, United used the actual LMS usage from its Waconia exchange. Waconia currently has EAS to the MCA and United offers LMS to its ratepayers.

The Commission finds that this methodology is sound and is likely to be more accurate than the methodology used in previous cases. The Waconia usage data appears to be the best information available for predicting LMS usage in the Norwood exchange. Waconia and Norwood are adjacent exchanges, they are both served by United, the same usage sensitive rates will be applied to LMS customers in the two exchanges, and both LMS services provide for calling to the same MCA.

⁴ See, e.g. In the Matter of the Petition of Certain Subscribers in the Belle Plaine Exchange for Extended Area Service to the Minneapolis/St. Paul Metropolitan Calling Area, Docket No. P-405, 421/CP-86-55, ORDER APPROVING STIMULATION FACTOR FOR SETTLE UP FILING (January 27, 1994). The Commission has reviewed its decision in the Belle Plaine docket (as well as Cologne, Waconia, and New Prague dockets) and affirmed its decision that a stimulation factor of four is appropriate. See e.g. Belle Plaine, Docket No. P-405, 421/CP-86-55, ORDER DENYING RECONSIDERATION (March 23, 1994). Other metro EAS dockets in which the Commission has adopted a stimulation factor of 7 are Lonsdale (Docket No. P-542, 421, 430, 407, 520/CP-92-30), Cannon Falls (Docket No. P-407, 421/CP-87-216), and Northfield (Docket No. P-421/CP-87-352).

⁵ Unfortunately, the Department did not comply with the part of the February 1, 1993 Order which required it to include with its recommendation a copy of the rates revised to reflect its requested change. If it had, the Commission would be in a position to adopt those rates for polling, thereby expediting processing this matter.

C. Summary of Commission Action

Based on the foregoing findings and analysis, the Commission will take two actions:

- First, regarding the cost studies and proposed rates in general, the Commission will direct the affected telephone companies to recalculate these items using a stimulation factor of four and refile them.
- Second, with respect to United's lower cost alternative, the Commission will approve the methodology used by United in developing its lower cost alternative, but will require the Company to refile its LMS rates, adjusted to reflect the refiled cost studies which incorporate the lower stimulation factor.

ORDER

1. Within 30 days of this Order, the affected telephone companies (United, Vista Telephone Company, GTE-Minnesota, Scott Rice Telephone Company, US West Communications, Inc., and Eckles Telephone Company) shall refile cost studies and proposed rates using a stimulation factor of four.
2. As part of its filing made pursuant to Ordering Paragraph 1, United Telephone Company (United) shall include rates for its lower cost alternative using the same methodology used in its August 2, 1993 filing but adjusted to reflect a stimulation factor of four.
3. Within 30 days of receiving the refiled cost studies and proposed rates pursuant to Ordering Paragraphs 1 and 2, the Minnesota Department of Public Service (the Department) shall file a report and recommendations regarding these filings.

In its report, if it recommends changes which would alter the rates proposed by the companies, the Department shall include rates reflecting its recommended changes.
4. The companies shall respond to information requests of the Department within seven days of the mailing date of the request.

If the Department does not receive satisfactory responses to the requests, it shall bring the matter to the Commission immediately.
5. Parties shall have 20 days to comment on the Department's report.

If any party recommends changes to the cost studies or proposed rates, that party shall file proposed rates reflecting the recommendations.
6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)